

Independent Auditor's Report

To the Inspector General
Library of Congress, and
Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying balance sheet of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of September 30, 1998, and the related statements of net costs, changes in net position, and budgetary resources for the year then ended. These financial statements are the responsibility of the CAPRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the second following paragraph, we conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 98-08, "*Audit Requirements for Federal Financial Statements*." These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

These financial statements were prepared on the basis of accounting described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We were unable to confirm with participants in the program the CAPRF's reported amount for Advances from Others (a liability representing unearned revenue) stated at \$1,139,534 as of September 30, 1998, nor were we able to satisfy ourselves with the balances of such advances by other auditing procedures.

In our opinion, except for the effect of such adjustments, if any, as might have determined to be necessary had we been able to confirm or examine other evidence supporting Advances from Others, the financial statements referred to above present fairly, in all material respects, the financial position of the CAPRF at September 30, 1998, and the net cost of operations, changes in net position, and budgetary resources for the year then ended in accordance with the accounting policies described in Note 1.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in *Management's Discussion and Analysis* (MD&A) of the CAPRF is not a required part of the basic financial statements. We assessed whether this information (supplemental schedule and MD&A) is materially consistent with the information, and the manner of its presentation, in the CAPRF's financial statements. However, we did not audit any of the aforementioned information and express no opinion on it.

In accordance with *Government Auditing Standards* we have also issued reports dated June 4, 1999 on our consideration of CAPRF's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Clifton Lunderson L.L.C.

Greenbelt, Maryland
June 4, 1999

Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General
The Library of Congress, and
The Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 1998, and have issued our report thereon dated June 4, 1999. The report includes an explanatory paragraph describing a matter relating to a scope limitation on our opinion on the financial statements of the CAPRF at September 30, 1998. Except for the explanatory paragraph of our report on the financial statements, we conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08, "*Audit Requirements for Federal Financial Statements*."

The management of the CAPRF is responsible for complying with laws and regulations applicable to the CAPRF. As part of obtaining reasonable assurance about whether the CAPRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instance of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08.

- The audited financial statements and related reports for the CAPRF were not prepared and submitted to Congress by March 31, 1999. Title 2, Section 182 requires an annual audit report of the CAPRF to be submitted to Congress not later than March 31 of each year for the preceding fiscal year.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended for the information of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, others within the organization, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
June 4, 1999

Independent Auditor's Report on Internal Controls

To the Inspector General
Library of Congress, and
The Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 1998, and have issued our report thereon dated June 4, 1999. The report includes an explanatory paragraph describing a matter relating to a scope limitation on our opinion on the financial statements of the CAPRF at September 30, 1998. Except for the matter discussed in this explanatory paragraph of our report on the financial statements, we conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin NO. 98-08, "*Audit Requirements for Federal Financial Statements*."

In planning and performing our audit, we considered the CAPRF's internal control over financial reporting by obtaining an understanding of the CAPRF's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the CAPRF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions and material weaknesses.

The consideration of internal control would not necessarily disclose all matters in internal control which might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we also considered to be material weaknesses as defined above. We have described the reportable conditions below; item #1 is considered a material weakness as defined above.

MATERIAL WEAKNESSES

1. PARTICIPANT LIABILITY BALANCE RECONCILIATION, RECORD KEEPING AND ADEQUATE SUPPORTING DOCUMENTATION

The CAPRF calculated and reported an ending liability balance in the advances from others representing unearned revenue for funds collected in advance from program participants. The collections are for direct expenses, such as the cost of materials acquired on the participants' behalf. These funds are available for obligation upon receipt of the advance. If a program participant cancels the order or an order is not filled for some other reason, these amounts are either applied to subsequent orders or are refunded to the participant.

The amount reported by management at September 30, 1998 for advances from others is \$1,139,534. As part of the audit procedures, we attempted to confirm with the participants the ending balance due them at September 30, 1998 and certain other activity for the year then ended. We were unable to obtain satisfactory response that the balances were correct. Additionally, CAPRF records were not available to permit the timely application of other auditing procedures to determine the adjustment needed, if any, to correct any potential error. As such, we have included a limitation of scope qualification in the independent auditor's report.

Other issues surrounding the participant balances which impact management's ability to reconcile and report the liability due participants on a timely basis are as follows:

Completing Reconciliations At September 30, 1998 - Our examination in 1998 found that the reconciliations of program participants' balances were not submitted and reconciled within the time frames as required by Financial Statement Directive (FSD) 97-6. The final adjustments and reconciliations of ending participant balances were not completed until April 1999.

Financial Statement Directive (FSD) 97-6 "Guidelines for Financial System Reconciliations", was issued and effective on September 1, 1997. This directive requires that the reconciliation report be due by the 15th of the third month following each accounting period (e.g., the September 30th report due on December 15th). Timely preparation of financial statements depends upon timely completion of the required reconciliations.

Issuance of a Status of Participant Account Balance – We found that the CAPRF was not providing all its participants with a status of their balances. Sound internal controls dictate that participant balances be maintained, as well as distributed to the participants, in an effort to resolve any disagreements on ending balances or other activity during the year.

Required Reconciliations - Financial Statement Directive (FSD) 97-6 “Guidelines for Financial System Reconciliations”, was issued and effective on September 1, 1997. This directive requires quarterly reconciliations between the participants’ balances in the general ledger and the detail subsidiary records. The directive does not require regular reconciliations between the expenditures recorded in the general ledger and the detail subsidiary records. Expenditure reconciliations were performed during fiscal year 1998; however, they were not performed on a regular basis, or as a requirement of the directive. Due to the nature to of the fund, regular expenditure reconciliation could be useful in assisting in the overall reconciliation of activity by participant and reduce the likelihood of errors or mispostings.

Access by Field Offices to Information for Required Reconciliations - The detail expenditure transactions are entered into a database system, then summarized and entered into the general ledger. The field offices receive copies of reports from the database for review and reconciliation. The detail of expenditures is not currently entered into the general ledger system, nor do the field offices have direct access to reports available from the general ledger.

The field offices have difficulty reconciling because they have to rely on e-mails and faxes of database generated reports. The field office can not obtain a detail listing from the general ledger of all the transactions at any given time.

Providing the detail in the general ledger, and providing access to the general ledger reports system, will allow the field offices to generate numerous reports, aiding the reconciliation process.

Negative Participant Balances - At September 30, 1998 twenty participants in the CAPRF had negative balances totaling \$27,773. Amounts were collected subsequent to year-end. However, as of June 4, 1999 \$13,548 in negative balances were outstanding. Deposits should be received from participants in advance of obligating funds.

The participant balances for direct costs are monitored by the field offices using spreadsheets and IODA, a PC-based data base system. These systems do not prevent the obligations of funds in excess of the participants’ existing balances. There is an increased risk for uncollectible funds from participants when direct costs are incurred prior to receiving payments of deposits from the participants.

Recommendations:

We recommend the following:

- Develop procedures to insure timely performance of required quarterly reconciliations of program participants' accounts.
- Prepare and send a Status of Participant Account on a quarterly basis to each participant. The Status of Participant Account should include the budget, payment processed, unliquidated obligations, net obligations, and the ending balance for materials. The report should also show the budget, expenditures to date, and the ending balance for shipping and binding. This report should be sent along with the IODA report #2, which is currently being sent to the participants.
- That FSD 97-6 be amended to require quarterly reconciliations between the general ledger and the detail subsidiary records for not only the participants' balances, but also for the program expenditures.
- The detail of expenditures, currently maintained in a database system, also be maintained in the general ledger in detail form, rather than summary form. We also recommend that the field office be provided with access to the general ledger reporting system, and with training in using the reporting system to aid in preparing reconciliations.
- Establish an internal control system of reviewing the participants' balances on a regular basis to determine if the balances are sufficient to cover expected orders of materials and other direct costs.

REPORTABLE CONDITIONS**2. TIMELY SUBMISSION OF FINANCIAL STATEMENTS**

The financial statements for the CAPRF were not prepared and submitted to Congress by March 31. Title 2, section 182 that the CAPRF requires an audited annual report to be submitted not later than March 31 of each year for the preceding fiscal year. Fiscal year ending September 30, 1998 was the first year the revolving fund was established. Additional time was required in order to prepare the financial statements, in part due to the conditions noted above.

Recommendation:

- We recommend that the CAPRF establish internal control procedures, including those recommend above to assist in the timely preparation and submission of financial statements.

In addition to the reportable conditions and material weaknesses described above, we noted certain matters involving internal control and its operations that we reported to the management of the CAPRF in a separate letter dated June 4, 1999.

The conditions discussed above were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 1998 financial statements, and this report does not affect our report dated June 4, 1999 on these financial statements.

Relevant comments from the CAPRF's management responsible for addressing these internal control matters are provided as an attachment to this report.

This report is intended for the information of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, others within the organization, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Sunderson L.L.C.

Greenbelt, Maryland
June 4, 1999